Five-Year
Strategic Plan

SCHOOL FACILITIES BOARD

FY 2009 — FY 2013

EXECUTIVE SUMMARY

New School Construction — Issue 1

With the ending of the Deficiency Corrections program, the main focus of the School Facilities Board in upcoming years will be overseeing the new school construction program. Despite a recent reduction in new housing units, population growth continues at a steady pace and the State's economy remains strong and population growth is expected to stay robust. The Arizona Department of Economic Security (DES) forecasts a job growth rate of 4.5% over a two-year period (2006 – 2007). The University of Arizona forecasts that Arizona's population will grow at an annual rate of around 3%, adding 202,000 new residents each year for the next five years. If K-12 enrollment as a percentage of population remains at last year's level, which was 16.6% according to *Governing Sourcebook 2006*, more than 33,500 students will be added to the State's public school system each year. For Greater Phoenix, the annual addition of students will be 23,600.

Given that growth will remain steady and continue to drive the demand for new school construction, the cost to the state's General Fund budget will continue to grow, which will challenge appropriators depending on how the state General Fund revenues grow and what percentage new school construction becomes of the state General Fund. Laws 2006, Chapter 353 eliminated the School Facilities Board ability to enter into lease-to-own transactions, as it was the Legislature's desire to permanently fund new school construction on a pay-as-you-go basis.

Other factors that drive new school construction include inflation, quality school standards, developments fees and adjacent ways. Each year the Joint Legislative Budget Committee is required to at least annually adjust the cost per square foot for construction market considerations. Additionally, with the shift from a formula program to a cost program due to increased construction costs, the School Facilities Board studied and took public input about how to interpret how to apply minimum guideline standards, which were defined for Deficiency Corrections and are vague in nature, to a new construction school setting. In February 2007, the Board decided what design elements or items should be included in a school that is over budget and requires additional funds above what the statutory formula provides. Finally, there has been a significant increase in development fees charged by cities and counties and more districts, typically low property wealth, are asking the SFB to fund on-site adjacent ways cost. Until recently, the majority of districts funded eligible adjacent ways expenditures, both on and off the school site, from the local adjacent ways budgets. As growth has entered smaller, low property wealth districts, some districts are asking that the SFB fund certain on-site ingress and egress items.

Building Renewal — Issue 2

The building renewal program has a complicated history that began in 1999 when several school districts sued the State (Roosevelt Case) asserting that the Students FIRST Act as implemented did not meet the requirements of the State Constitution because the State failed to fully fund the Building Renewal formula for fiscal years 1999, 2000, and 2002. On October 13, 2001, an Arizona Superior Court granted the State's Cross Motion for Summary Judgment and ruled that the appropriation of a specific sum by the State Legislature for fiscal year 1999 demonstrates that there was no expectation that the statutory formula for the building renewal fund was intended to be used for FY 1999.

However, on May 7, 2002, the Superior Court held that the State's failure to fully fund the Building Renewal Fund for fiscal years 2000 and 2002 was a violation of the State Constitution's requirement that the State provide a general and uniform public school system.

On June 18, 2002, certain school districts filed a new lawsuit (the Somerton case) asserting that the State had failed to fully fund the building renewal fund for fiscal year 2002. On October 17, 2002 and December 13, 2002, the Superior Court held that the State had violated the State Constitution by failing to fully fund the building renewal fund for fiscal year 2002. The Court also ordered the State to "remedy the constitutional deficiencies" in the level of building renewal fund funding by June 30, 2004. The Somerton case was consolidated with the Roosevelt case, also being appealed by the State. On appeal, the Court of Appeals on August 14, 2004, reversed the trial court's judgments and remanded both cases to the trial court for the school districts to demonstrate that the lack of building renewal funding resulted in current unmet needs related to academic achievement. On January 6, 2004, the Arizona Supreme Court denied review of the Court of Appeals order remanding the consolidated cases.

On October 3, 2006, the Superior Court granted the Defendant State of Arizona's Motion for Summary Judgment. At issue in the motion for summary judgment is whether plaintiffs' claim was ripe and whether plaintiffs must prove that the Students FIRST system is unconstitutional as applied to every public school district or only as applied to them and whether the Students FIRST system has caused any facility needs related to academic performance to be unmet. The Court found that until each plaintiff district attempted to obtain all available funds from the State their claim is premature and not yet ripe.

The Superior Court then granted the motion of two districts to continue the case on the inactive status and is set to dismiss the case on March 3, 2008 unless prior to that date, a motion to set and certificate of readiness is filed; a judgment is filed, or a stipulation of dismissal is presented.

Emergency Deficiency Corrections — Issue 3

Laws 2005, Chapter 287, Section 7 repealed the main Deficiency Corrections program as of June 30, 2006. However, the SFB will continue to provide emergency deficiency services through the Emergency Deficiency program. The main issue facing this program's long-term viability is lack of a dedicated funding source. A.R.S. §15-2022 provides that revenues consist of monies transferred from the Deficiency Corrections Fund which no longer exists or the New School Facilities Fund as long as the transfer will not affect, interfere with, disrupt or reduce any approved capital projects. With inflationary pressures impacting the New School Facilities Fund coupled with the ongoing program growth as well as the recent shortfall, the New School Facilities Fund is not a viable funding source once existing cash balances in the Emergency Deficiencies Fund are spent down. Additionally, with the Superior Court action granting the defendant State of Arizona's Motion for Summary Judgment, which requires that plaintiff districts must attempt to obtain all available funds from the state, including emergency deficiencies, before their claim may be considered ripe for reinstatement, there may be new pressures on the Emergency Deficiencies Fund that have not historically existed.

Preventative Maintenance — Issue 4

In order to protect the State's $1.3 billion deficiencies corrections and the $2.4 billion new school construction investment, the Legislature directed the School Facilities Board to help school districts establish preventive maintenance (PM) programs and then perform inspections to review the implementation of those programs. The School Facilities Board has adopted a general set of preventive maintenance guidelines and districts are required to perform the guideline tasks for the various building systems.

Currently, the law does not provide a dedicated state-funding source for preventive maintenance. However, A.R.S. §15-2031 subsection J allows school districts to use eight percent of the building renewal amount generated by the statutory formula for routine preventative maintenance, which are services that are performed on a regular schedule at intervals ranging from four times a year to once every three years and that are intended to extend the useful life of a building system and reduce the need for major repairs.

Full Day Kindergarten — Issue 5

Laws 2006, Chapter 353 established a Group B kindergarten weight at .835 in FY 2007 and 1.352 in FY 2008 and beyond, which was intended to provide sufficient General Fund funding toward completing the phase-in of voluntary full-day kindergarten at all Arizona schools over the next two years. However, section 4 of the bill eliminated the requirement that the legislature develop a plan, including capital monies, to provide statewide full-day kindergarten instruction by fiscal year 2009-2010. It requires that if a school district or charter school chooses to offer voluntary full-day kindergarten instruction, any necessary capital monies needed to implement voluntary full-day kindergarten instruction shall be provided by the school district or charter school.

The Arizona Constitution requires that the State provide appropriate facilities to meet the academic goals of the State. The law now provides the operating funds for districts to implement full-day kindergarten. However, the law does not allow the School Facilities Board to provide the facilities to accommodate full-day kindergarten. Instead, districts are left to their own resources to provide full-day kindergarten capital. Under the current scenario, those districts with excess space or local funds will be able to implement full day kindergarten while those without those resources will not.

As a part of the FY 2009 budget, the SFB requested that the new construction formula be changed to allow the SFB to recognize kindergarten students as a full ADM rather than half ADM under the current law. If changed, the SFB staff estimates this would require the Board to approve $220.1 million in new space in FY 2008. This space would be built and financed over multiple years. The first fiscal impact would be in FY 2009 estimated at $11.0 million.

FIVE-YEAR STRATEGIC PLAN

Mission

To provide financial and technical assistance to help ensure that school districts maintain buildings and equipment at minimum adequacy standards so that students can achieve academic success.

Description

The School Facilities Board was created by Laws 1998, 5th Special Session, Chapter 1 through legislation commonly known as Students FIRST (Fair and Immediate Resources for Students Today). The School Facilities Board consists of nine Gubernatorial appointed voting members and the Superintendent of Public Instruction who serves as a non-voting member. The Board is charged with administration of three capital programs: a) New School Facilities, b) Building Renewal, and c) Emergency Deficiencies Corrections.

In order to effectively evaluate the State's school capital needs, the Board maintains a facilities database consisting of information reported by each school district that aids the Board in determining the funding level for building renewal and the construction of new facilities. Through periodic inspections, the Board is mandated to ensure compliance with building adequacy standards and routine preventative maintenance guidelines with respect to the new construction of buildings and maintenance of existing buildings. The Board also administers an Emergency Deficiencies program in the event that a school district has a serious need for materials, services, construction, or expenses in excess of the district's adopted budget that seriously threatens the functioning of the school district, the preservation or protection of property or public health, safety, and welfare.

New School Construction — Issue 1

Funding

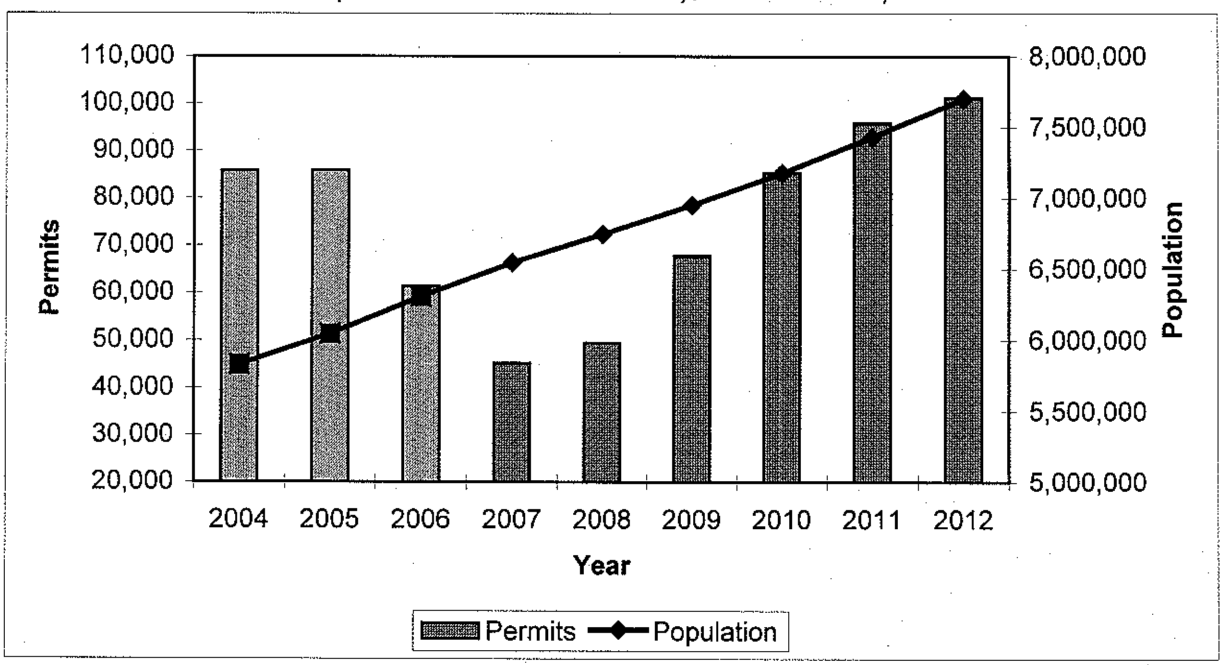
Students FIRST originally intended for the New School Construction program to have a permanent source of funding through the State Treasurer, whose office was required to transfer to the New School Facilities Fund, without the need for a specific legislative appropriation, state General Fund revenues in an amount instructed by the School Facilities Board. From the program's inception until 2003, the New Construction program was funded on a cash basis from transaction privilege tax transfers. Beginning in FY 2003 and continuing through FY 2005, the Legislature replaced the School Facilities Board's authority to request transaction privilege tax transfers directly from the State Treasurer with the authority to enter into lease-to-own transactions and provided appropriations to pay for the new school facilities debt service. Laws 2005, Ch. 287, section 5 repealed the School Facilities Board's authority to instruct the Treasurer and the Legislature instead directed the Treasurer to transfer a specific sum in the amount of $250 million for FY 2006 along with an advance appropriation of $50 million for FY 2007. Laws 2006, Chapter 344 appropriated $200 million from the General Fund to the New School Facilities Fund, of which $4.0 million was for Full-day Kindergarten. Finally, Laws 2006, Chapter 353 eliminated the School Facilities Board ability to enter into lease-to-own transactions, as it was the Legislature's desire to permanently fund new school construction on a pay-as-you-go basis.

Outlook

The School Facilities Board five-year outlook for new construction shows a continued need for new schools.

The chart below shows population and the number of residential housing permits in Arizona by year. For 2004, 2005 and 2006, actual numbers are used; for 2007 and later years, the numbers are projected by the University of Arizona in the Summer 2007 issue of *Arizona's Economy*. The decline in residential construction that started in the fall of 2005 is projected to continue into 2007. More recent development in the housing market has prompted most economists to forecast that the slowdown will continue into 2008. The trend is projected to reverse in 2008-2009. Population, however, is projected to grow at a steady pace of more than 3% over this period. (Note: When reading the chart, please note that the Y-Axes do not start at zero. The changes may appear larger than they really are.)

Chart 1:
Actual and projected new residential permits in Arizona
(Source: *Arizona's Economy, Summer 2007*)



What does all this mean to new school construction in Arizona? Consistent with the downturn in the housing market, the FY 2007 award cycle of capital funding for new school construction (including cancellations and revisions to projects) was lower than that of FY 2006 award cycle, $391.8 million versus $402.2 million. However, the decrease in the dollar amount is quite moderate, not as steep as the current reduction in residential permits would suggest. This is mainly due to two factors.

1) Population growth was steady and strong in the past few years irrespective of the boom and bust in the housing market. In the face of steady population growth, fewer new housing units mean that previously vacant houses will be occupied, thus adding students to the system.

2) The FY 2007 planning cycle covered capacity needs for the period of FY2008 to FY2010, which is expected to see a recovery in the housing market.

In its FY 2009 budget request, SFB staff reviewed conceptual awards based on the FY 2007 award cycle of $435.6 million and decreased it by 10% to $392 million (before adjusting for inflation) to account for the housing slow down. SFB staff will continue to closely monitor the condition in the housing market and trend of population growth to best plan for new school construction.

Forecasting challenges

As delineated in Table 1, which shows awards for the last six years, awards can fluctuate widely. There are several reasons behind these fluctuations. First, the districts control when they seek new schools. Even if a district may qualify for a school, until they submit a capital plan the SFB cannot award one. Second, since the program is based on student projections, inaccuracies in a given year are corrected in subsequent years. If a school is awarded one year early, then that year's awards are artificially high and the next year's are low. If a school is awarded one year late, then the current year total awards are low, and the next year's awards are high.

Table 1 –
SFB New Construction Awards[1]

FY	Projects	Dollars
2001	28	$225,613,428
2002	37	$206,559,307
2003	29	$198,857,735
2004	38	$304,504,991
2005	23	$263,475,973
2006	40	$428,342,326
2007	33	$428,063,870

Approved projects reflect an underlying student population growth that breaks down as follows in Table 2:

[1] Includes all award activity during fiscal year, including any revisions or cancellations to prior awarded projects and any additional awards for inflation, site conditions, or geographic conditions in final GMP plan review award.

Table 2 Percentage of Student Growth FY 2002-FY 2006[2]	
Fiscal Year	Annual Growth Rate
FY 2002	2.04%
FY 2003	2.22%
FY 2004	1.88%
FY 2005	3.01%
FY 2006	3.00%
FY 2007	2.05%

Translating statewide growth projections into actual new construction awards remains difficult. As shown in Table 2, the State experienced increases in the statewide growth rate in FY 2003 and FY 2005. Following the FY 2003 population increase, the Board experienced the largest number and value of new school awards. Since FY 2005 experienced an even larger growth rate, it is reasonable to assume that staff should anticipate a higher than average new construction cycle. However, the conceptual plan approved by the Board that incorporated the FY 2005 growth figures showed a reduction in awards. This discrepancy indicates that statewide growth does not necessarily translate to a new construction need. Other factors including prior awards, existing district space, and which districts actually experience the growth all contribute to new construction awards. These growth numbers reflect students that enter a grade range through ageing and migration. The School Facilities Board staff estimates that this growth pattern will be localized in approximately 50 school districts, mainly in Maricopa, Pinal, and Yuma counties.

Fiscal Pressures

With respect to new school construction, there will also be additional pressure on the General Fund for increased appropriations for the following reasons.

1. <u>Elimination of Lease-to-Own</u> – Laws 2006, Ch. 353 eliminated the SFB's ability to enter into lease-to-own transactions so there is an increase burden on the General Fund to pay for new school construction on a pay-as-you go basis to eliminate the interest costs associated with bonding.

2. <u>Loss of Prior Year Revenue Sources</u> – There has been a decline or absence of revenue sources such as cash balances, transfers-in, and lease-to-own proceeds available to support new construction expenditures.

3. <u>Inflationary Impacts</u> – Pursuant to A.R.S. §15-2041, the Joint Legislative Budget Committee is required to at least annually adjust the cost per square foot for construction market considerations. The action of the Committee has historically made adjustments during the fall (roughly October) of the calendar year, which updates the cost per square foot to the preceding July levels (e.g., July 2007). However, the SFB awards the majority of the projects subject to the cost per square foot after the subsequent January (e.g. January 2008). Therefore the new construction projects are subject to at least six months of inflation that is unaccounted for in the established cost per square foot. In seasons of extreme inflation, this dramatically impacts the buying power of the formula. There is additional inflationary pressure for the months following a project being approved and when construction begins. Additionally, with the change of the program from a formula-based to a cost-based program, additional awards for inflation are common in the majority of projects since the cost per square foot is not adequate to build a school, that meets minimum adequacy guidelines and capped design standards.

[2] The growth metric is based on attending ADM provided by the Department of Education. The numbers include District Schools and Accommodation schools only. Charter Schools and JTED's are not included.

4. Development fees – there has been a significant increase in development fees charged by cities and counties.

5. Adjacent ways – more districts, typically low property wealth, are asking the SFB to fund on-site adjacent ways cost. Until recently, the majority of districts funded eligible adjacent ways expenditures, both on and off the school site, from the local adjacent ways budgets. As growth has entered smaller, low property wealth districts, some districts are asking that the SFB fund certain on-site ingress and egress items.

Operational Planning

In an effort to effectively manage the new school construction program, the School Facilities Board staff is involved in the following efforts.

Long-Term Planning – Upon conceptual approval of new school construction projects, the SFB is making an effort to find land to site future schools in locations that will best serve the emerging growth of the district. In addition, many school districts are working closely with developers to get donations for school sites. If a school district acquires real property by donation, the SFB is required to distribute an amount equal to 20% of the fair market value of the donated property to the school district, which may be used by the district for unrestricted capital outlay. All school sites, whether donated, purchased or partially purchased must be approved by the Board. The SFB staff in making recommendations to the Board ensures that the site will be viable with respect to items such as size, environmental issues, utility routes, etc. The SFB is also encouraging districts to work closely with local governments and planning departments to ensure that school district needs for school sites are considered in the planning process prior to the issuance of permits to developers. Some districts have even been successful in getting the city to not charge for permits and fees for school construction, which saves on the overall cost of the project. Additionally, the SFB is helping districts develop long-term projections that will help districts appropriately size and locate current facilities.

Energy Efficiency and Sustainability – Under Governor Napolitano's leadership, Executive Order 2005-05 requires that all new state funded buildings be designed and constructed to derive at least 10% of their energy from a renewable resource. Further, all state-funded buildings shall include energy efficiency standards pursuant to law and buildings newly constructed are required to meet the "silver" Leadership in Energy and Environmental Design (LEED) standard. Executive Order 2004-28 also requires that all Executive branch agencies take steps necessary to reduce annual water consumption by 5% using FY 2004 levels as a baseline. Executive Order 2001-3 under Governor Hull required that all public schools be designed and constructed in a manner to reduce energy consumption and create energy efficient facilities without adversely affecting the quality of school design and construction by providing necessary funds to school in accordance with School Facilities Board policies and guidelines. The Board has had study session on the issue of Energy to discuss goals of reducing energy consumption by 15 percent and water consumption by 20%. The first step toward the goal is to develop an approved list of energy efficiency upgrades that conform to Board rule R7-6-260 regarding the eight-year pay back. The SFB staff has been working with the architect community to identify items that might qualify and the methodology to track. In addition to the eight-year pay back list, SFB staff has reviewed federal and private incentive programs, requires that new project architects certify that projects meet current state laws regarding energy efficiency, has met with private firms that promote energy upgrades to explore private/public partnerships, and is working toward installing a waterless urinal demonstration project.

School Safety – In late 2006, the Governor's Office asked the Arizona School Facilities Board (SFB) to evaluate school security issues and to make recommendations for security measures that might be incorporated into new school construction. SFB staff performed an extensive literature review of nationally recommended best practices for enhancing school security and received public comments during an SFB Board meeting held on December 7, 2006. Staff compiled best practice recommendations from those public comments and from literature sources including federal and state law enforcement agencies, various State departments of education, recognized school security experts, and architects and planners engaged in school design. At the June 7, 2007 Board Meeting, staff presented the draft school safety recommendations. The recommendations were then posted on the SFB website for comment. The final recommendations were presented and approved by the School Facilities Board at its August 2, 2007 Board meeting.

<u>21st Century Schools</u> – In her Executive Order 2007-06, Governor Janet Napolitano directed the School Facilities Board (SFB) to prepare a report that would recommend how the State can build 21st century schools to best serve Arizona's students. The final report issued in September 2007 included recommendations on how to best do the following:

1. enhance ability of teachers and students to integrate technology into teaching and learning;
2. create personalized instructional environments that best match teaching programs with individual student needs;
3. foster productive relationship-building between teachers and students;
4. ensure the safety of all students an school personnel; and
5. maximize energy and water efficiency.

Additionally, the report included recommendations on:

6. School size and its impact on learning
7. The impact of class size initiatives on school construction
8. The best way to pay for new schools

Goal	To efficiently analyze school district requests for new school facilities.
Strategies	1. To review minimum adequacy guidelines with stakeholder input and develop policies that can be applied in a new school construction setting 2. To monitor construction inflation and request JLBC review as necessary to ensure cost per square foot keeps pace with market pricing 3. To monitor design process to ensure construction of a quality school that meets minimum adequacy guidelines while being a fiduciary of State funding in managing a cost versus formula driven program
Performance Measures	1. Number of school district requests for new school facilities funding 2. Average number of months from receipt of school district application for new school facility fund monies to School Facilities Board final determination. 3. Number of new school construction projects completed 4. Amount of inflation

The building renewal program as currently constituted is based on a formula that provides approximately 67 percent of the building replacement value over a 50-year period. A.R.S. §15-2031 requires that building renewal be distributed twice a year in lump sum amounts to school districts, as long as districts submit their prior year expenditure report and three-year building renewal plan to the Board. While districts are required to submit a three-year building renewal plan and expenditure data, there is no state oversight on when dollars are actually expended or whether projects are even necessary. In many cases, districts save dollars year to year in anticipation of a future large expenditure.

Laws 2007, Chapter 266, section 2 amended the building renewal statute to include a priority system for the use of building renewal funds. A school district must use building renewal monies for primary projects unless only secondary projects exist. Primary projects are projects that are necessary to meet the state academic standards and that fall below minimum adequacy guidelines, whereas secondary projects are any projects not defined as primary projects. Further, school districts are required to use building renewal monies on secondary projects to comply with building, health, fire or safety codes. However, before spending building renewal monies on secondary projects to comply with building, health, fire or safety codes, the school facilities board is required to approve the projects.

Building Renewal Lawsuit

In 1999, several school districts sued the State (Roosevelt Case) asserting that the Students FIRST Act as implemented did not meet the requirements of the State Constitution because the State failed to fully fund the Building Renewal formula for fiscal years 1999, 2000, and 2002. On October 13, 2001, an Arizona Superior Court granted the State's Cross Motion for Summary Judgment and ruled that the appropriation of a specific sum by the State Legislature for fiscal year 1999 demonstrates that there was no expectation that the statutory formula for the building renewal fund was intended to be used for FY 1999.

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Building Renewal Funding History

Fiscal Year	Formula Amount	Appropriated Amount	Shortfall	Explanation
FY 1999	$103,747,800	$75,000,000	$28,747,800	Laws 1998, Fifth Special Session, Ch. 1 (SB 1001 - Students FIRST), section 64 appropriated $75 million from the General Fund to the Building Renewal Fund for FY 1999. The amount appropriated represented the best guess at the time since only limited building inventory information was available. The formula amount was originally estimated by SFB to be $75 million but was later updated to $103,747,800 after the collection of school district building data. Since the lesser amount of $75 million was credited to the Building Renewal Fund by the Treasurer, the Board distributed 72% of the formula amount to each district.
FY 2000	$108,389,300	$82,500,000	$25,889,300	The formula amount was originally estimated by SFB to be $82.5 million (a 10% increase over FY 1999 based on limited information) but was later updated to $108,389,300 after the collection of school district building data. Since the lesser amount of $82,500,000 was credited to the Building Renewal Fund by the Treasurer, the Board distributed 76% of the formula amount to each district.
FY 2001	$122,725,300	$122,725,300	$0	In FY 2001, the SFB pursuant to A.R.S. 42-5030.01instructed the Treasurer to transfer to $120 million. Subsequently, the Board recalculated the cost at $122,725,300. In a court decision addressing the legality of prior year shortfalls between the SFB transfer instructions and calculated formula cost, a Maricopa County district court ruled in October 2000 that funding for building renewal each year should be determined by formula cost. In January 2001, the Attorney General issued a formal opinion that the court ruling does not require or permit the SFB to present a revised instruction to the Treasurer to make of the $2,725,300 shortfall. The SFB therefore requested and the Legislature granted through Laws 2001, Chapter 232 a supplemental appropriation of $2,725,300.

Fiscal Year	Formula Amount	Appropriated Amount	Shortfall	Explanation
FY 2002	$122,786,413	$62,065,300	$69,934,700	Pursuant to A.R.S. 42-5030.01, funding is provided through a direct transfer of TPT revenues from the Treasurer in the amount of $132,000,000. Laws 2002, 3rd SS, Ch. 2, section 22 (HB 2003) transferred $69,934,700 from the Building Renewal Fund to the General Fund leaving a net appropriation of $62,065,300.
FY 2003	$128,274,062	$38,274,100	$89,999,962	Laws 2002, Chapter 330 (HB 2710), section 45 notwithstood section A.R.S. 15-2002, subsection A, paragraph 10 and required that the state treasurer disregard any instructions of the School Facilities Board relating to the Building Renewal Fund transfers for fiscal year 2002-2003 and instead shall transfer only the sum of $38,274,100 in fiscal year 2002-2003 from transaction privilege tax revenues to the Building Renewal Fund. Legislature noted in section 61 of same bill that it was their intent that the Deficiency correction program would provide the necessary funds for building renewal needs.
FY 2004		$0		Laws 2002, Ch. 330, section 61(HB 2710) suspended the building renewal formula for FY 2004. Legislature noted it was their intent that the Deficiency correction program would provide the necessary funds for building renewal needs. The formula amount was $128,804,873 for this year.
FY 2005	$134,894,500	$70,000,000	$64,894,500	Pursuant to A.R.S. 42-5030.01, funding is provided through a direct transfer of TPT revenues from the Treasurer in the amount of $134,894,500. However, this was offset by Laws 2004, Ch. 274, section 7 (SB 1406) which transferred $104,894,500 from the Building Renewal Fund to the General Fund for a net appropriation of $30,000,00. Additionally, Laws 2004, Ch. 275, section 67 (SB 1402) provided an additional $40,000,000 through conditional appropriations that were triggered due to excess state revenues for a total appropriation of $70,000,000. Revised Formula: The alternate formula which was passed and vetoed in Laws 2004, Ch. 274, section 1 (SB 1406) would have produced 71 million. Legislative staffed noted that the appropriation was targeted to this level.

Fiscal Year	Formula Amount	Appropriated Amount	Shortfall	Explanation
FY 2006 [1/]	$130,080,500	$70,000,000	$60,080,500	Pursuant to Laws 2001, Ch. 117, section 32 (A.R.S. §42-5030.01) a transfer in the amount of $130,080,500 was made from the General Fund to the Building Renewal Fund. Pursuant to Laws 2005, Chapter 287, section 9 a $60,080,500 transfer was made from the Building Renewal Fund to the General Fund, leaving the net appropriation of $70,000,000. Historical Note: Prior to Laws 2005, Ch. 287, section 5, which amended Laws 2001, Ch. 117, sec. 32, the State Treasurer was required to transfer to the Building Renewal Fund, without the need for a specific legislative appropriation, state general fund revenues in an amount instructed by the School Facilities Board. This authority was repealed by Laws 2005, Ch. 287, section 5. Revised Formula: The alternate formula would have produced approximately $69 million.
FY 2007	$161,465,349	$86,283,500	$75,181,849	Laws 2006, Chapter 353, Section 28, (HB 2874) K-12 budget reconciliation bill appropriated $86,283,500 from the General Fund to the Building Renewal Fund. The appropriation was originally contained in HB 2875, SFB budget reconciliation bill, which altered the formula but was vetoed by Governor Napolitano. The amount was based on the alternate formula.
FY 2008	$190,219,962	$86,283,500	$103,936,462	Laws 2007, Chapter 255, Section 90, (HB 2781) General Appropriations Act appropriated $86,283,500 from the General Fund to the Building Renewal Fund.

[1/] The decrease in the formula amount in FY 2006 from FY 2005 is due to the incorporation of Deficiency Correction projects into the formula as renovations.

Goal	To ensure that building renewal funds are used appropriately.
Strategies	1. Review prior year expenditures and three-year plans to ensure that funds have been spent or are being planned for projects that conform with statutory uses 2. Enhance web-based building renewal system to link projects to statutory uses in an effort to collect better information to aid in plan evaluation 3. Enhance web-based building renewal system to link expenditure reports to three-year district building renewal plan to identify how closely actual expenditures relate to planned projects 4. Accurately maintain school facilities inventory database 5. Assist districts in their three-year building renewal plan development as requested and needed by district 6. Distribute building renewal funding as required by law.

Performance Measures	1. Percent of school districts that used building renewal funding for non-statutory purposes 2. Number of districts instructed by the School Facilities Board to use building renewal funding for preventative maintenance

Emergency Deficiency Corrections — Issue 3

Laws 2005, Chapter 287, Section 7 repealed the main Deficiency Corrections program as of June 30, 2006. However, the SFB will continue to provide emergency deficiency services through the Emergency Deficiency program. The main issue facing this program's long-term viability is lack of a dedicated funding source. A.R.S. §15-2022 provides that revenues consist of monies transferred from the Deficiency Corrections Fund which no longer exists or the New School Facilities Fund as long as the transfer will not affect, interfere with, disrupt or reduce any approved capital projects. With inflationary pressures impacting the New School Facilities Fund coupled with the ongoing program growth as well as the recent shortfall, the New School Facilities Fund is not a viable funding source once existing cash balances in the Emergency Deficiencies Fund are spent down. Additionally, with the Superior Court action granting the defendant State of Arizona's Motion for Summary Judgment, which requires that plaintiff districts must attempt to obtain all available funds from the state, including emergency deficiencies, before their claim may be considered ripe for reinstatement, there may be new pressures on the Emergency Deficiencies Fund that have not historically existed.

Goal	To efficiently analyze school district requests for emergency deficiency corrections.
Strategies	1. To secure funding as necessary to ensure adequate fiscal resources for emergency projects 2. To provide feedback to district in a timely manner regarding staff recommendation 3. To clarify why projects may or may not have been included in the district's adopted budget, to ensure that projects are not attributable to lack of district planning for items that have a useful life for which the district should have planned, to ensure that projects in smaller districts are considered if building renewal dollars are insufficient to plan for problem
Performance Measures	1. Number of requests for emergency deficiency corrections funding

Preventative Maintenance — Issue 4

In order to protect the State's $1.3 billion deficiencies corrections and the $1.96 billion new school construction investment, the Legislature directed the School Facilities Board to help school districts establish preventive maintenance (PM) programs and then perform inspections to review the implementation of those programs. The School Facilities Board has adopted a general set of preventive maintenance guidelines and districts are required to perform the guideline tasks for the various building systems.

Currently, the law does not provide a dedicated state-funding source for preventive maintenance. However, A.R.S. §15-2031 subsection J allows school districts to use eight percent of the building renewal amount generated by the statutory formula for routine preventative maintenance, which are services that are performed on a regular schedule at intervals ranging from four times a year to once every three years and that are intended to extend the useful life of a building system and reduce the need for major repairs.

Goal	To inspect school districts to ensure compliance with building adequacy standards with respect to construction of new buildings and maintenance of existing buildings.
Strategies	1. Assist school districts in the preparation and submittal of required preventive maintenance plans. 2. Review annual preventive maintenance school district reports. 3. Inspect schools on an annual basis to ensure that all schools are inspected over a five-year time frame. 4. Work with districts and the Legislature to ensure that the resources necessary to properly maintain the State's schools are made available and properly used.
Performance Measures	1. Percent of all school district schools inspected to ensure minimum adequacy guidelines 2. Average number of issues per school inspected that do not meet minimum adequacy standards 3. Percent of inspected schools determined to have an adequate preventative maintenance program

Full Day Kindergarten — Issue 5

Laws 2006, Chapter 353 established a Group B kindergarten weight at .835 in FY 2007 and 1.352 in FY 2008 and beyond, which was intended to provide sufficient General Fund funding toward completing the phase-in of voluntary full-day kindergarten at all Arizona schools over the next two years. However, section 4 of the bill eliminated the requirement that the legislature develop a plan, including capital monies, to provide statewide full-day kindergarten instruction by fiscal year 2009-2010. It requires that if a school district or charter school chooses to offer voluntary full-day kindergarten instruction, any necessary capital monies needed to implement voluntary full-day kindergarten instruction shall be provided by the school district or charter school.

The Arizona Constitution requires that the State provide appropriate facilities to meet the academic goals of the State. The law now provides the operating funds for districts to implement full-day kindergarten. However, the law does not allow the School Facilities Board to provide the facilities to accommodate full-day kindergarten. Instead, districts are left to their own resources to provide full-day kindergarten capital. Under the current scenario, those districts with excess space or local funds will be able to implement full day kindergarten while those without those resources will not.

As a part of the FY 2009 budget, the SFB requested that the new construction formula be changed to allow the SFB to recognize kindergarten students as a full ADM rather than half ADM under the current law. If changed, the SFB staff estimates this would require the Board to approve $220.1 million in new space in FY 2008. This space would be built and financed over multiple years. The first fiscal impact would be in FY 2009 estimated at $11.0 million.

There are not any specific goals, strategies, or measures for Full-Day Kindergarten as any project would be tracked within the context of the New Construction program but the issue is important and worth specific reference.

Table 1
School Facilities Board
Five-Year Strategic Plan FY 2009 - FY 2013
Incremental Change in Expenditures

Fund		Projected FY 2007	Incremental Change	Projected FY 2008	Incremental Change	Projected FY 2009	Incremental Change	Projected FY 2010	Incremental Change	Projected FY 2011	Incremental Change	Projected FY 2012
	<u>Appropriated Funds</u>											
1000	General Fund - School Facilities Operating	1,944,400	111,600	2,056,000	61,680	2,117,680	63,530	2,181,210	65,436	2,246,647	67,399	2,314,046
1000	General Fund - Building Renewal	86,283,500	121,056,300	207,339,800	20,734,000	228,073,800	22,807,400	250,881,200	25,088,100	275,969,300	27,596,900	303,566,200
1000	General Fund - New School Facilities	250,000,000	157,799,900	407,799,900	150,616,100	558,416,000	49,406,700	607,822,700	2,888,400	610,711,100	18,785,700	629,496,800
1000	General Fund - New School Facilities LTO	75,733,500	(3,766,300)	71,967,200	6,358,000	78,325,200	(13,452,700)	64,872,500	26,465,500	91,338,000	5,807,100	97,145,100
1000	General Fund - Emergency Deficiencies	0	0	0	0	0	0	0	1,000,000	1,000,000	0	1,000,000
...	General Fund Total	413,961,400	275,201,500	689,162,900	177,769,780	866,932,680	58,824,930	925,757,610	55,507,436	981,265,047	52,257,099	1,033,522,146
	<u>Non-Appropriated Funds</u>											
2373	Lease-to-Own Debt Service	71,967,200	7,301,200	79,268,400	(943,200)	78,325,200	(13,452,700)	64,872,500	26,465,500	91,338,000	5,807,100	97,145,100
2455	Deficiency Corrections	30,277,100	(30,277,100)	0	0	0	0	0	0	0	0	0
2460	New School Facilities Fund	442,700,500	31,985,000	474,685,500		554,660,900		617,822,700		620,711,100		639,496,800
2465	Building Renewal Fund	90,240,300	117,099,500	207,339,800	20,734,000	228,073,800	22,807,400	250,881,200	25,088,100	275,969,300	27,596,900	303,566,200
2484	Emergency Deficiency Corrections	1,359,000	(859,000)	500,000	500,000	1,000,000	50,000	1,050,000	52,500	1,102,500	55,100	1,157,600
3325	School Facilities Revenue Bond Proceeds	100	(100)	0	0	0	0	0	0	0	0	0
3335	School Improvement Revenue Bond Proceeds	0	0	0	0	0	0	0	0	0	0	0
3339	State Land Trust Bond Proceeds	300	(300)	0	0	0	0	0	0	0	0	0
5010	School Facilities Revenue Bond Debt Service	77,493,400	(11,646,700)	65,846,700	(3,500)	65,843,200	(400)	65,842,800	(1,600)	65,841,200	(93,300)	65,747,900
5030	State School Trust Revenue Bond Debt Service	25,433,800	700	25,434,500	(1,000)	25,433,500	800	25,434,300	200	25,434,500	(3,100)	25,431,400
	Non-Appropriated Funds Total	739,471,700	113,603,200	853,074,900	20,286,300	953,336,600	9,405,100	1,025,903,500	51,604,700	1,080,396,600	33,362,700	1,132,545,000
	Total Funds	1,153,433,100	388,804,700	1,542,237,800	198,056,080	1,820,269,280	68,230,030	1,951,661,110	107,112,136	2,061,661,647	85,619,799	2,166,067,146
	Full-Time Equivalent Positions	15.0	2.0	17.0	1.0	18.0	1.0	19.0	1.0	20.0	1.0	21.0

Table 2
School Facilities Board Operating
Five-Year Strategic Plan FY 2009 - FY 2013
Incremental Change in Expenditures

	Projected FY 2008	Incremental Change	Projected FY 2009	Incremental Change	Projected FY 2010	Incremental Change	Projected FY 2011	Incremental Change	Projected FY 2012	Incremental Change	Projected FY 2013
Expenditures	1,944,400	111,600	2,056,000	61,680	2,117,680	63,530	2,181,210	65,436	2,246,647	67,399	2,314,046

Assumptions:

FY 2009 projection includes $111,600 for the Information Technology/Programmer decision package that was part of the FY 2009 budget request. The FY 2010 - FY 2012 forecast assumes a 3% increase in the annual operating budget.

Table 3
New Construction Program
Five-Year Strategic Plan FY 2009 - FY 2013
Incremental Change in Fund Balance

	Projected FY 2008	Incremental Change	Projected FY 2009	Incremental Change	Projected FY 2010	Incremental Change	Projected FY 2011	Incremental Change	Projected FY 2012	Incremental Change	Projected FY 2013
Beginning Fund Balance	700,500		0		(8,755,100)		5,000,000		5,000,000		5,000,000
Revenues											
Supplemental	67,000,000										
Lease to Own Proceeds	0	0	0	0	0	0	0	0	0	0	
Rental Income	5,000,000	0	5,000,000	5,000,000	10,000,000	0	10,000,000	0	10,000,000	0	10,000,000
Total Revenues	72,000,000	(67,000,000)	5,000,000	5,000,000	10,000,000	0	10,000,000	0	10,000,000	0	10,000,000
Fund Transfers											
GF Appropriation - New Schools [3]	370,000,000	90,000,000	460,000,000	55,920,700	515,920,700	33,667,700	549,588,400	32,792,500	582,380,900	32,950,800	615,331,700
GF Appropriation - Full Day K	0	0	0	42,495,300	42,495,300	15,739,000	58,234,300	(29,904,100)	28,330,200	(14,165,100)	14,165,100
GF Appropriation - LTO Debt Service	71,967,200	7,301,200	79,268,400	(943,200)	78,325,200	(13,452,700)	64,872,500	26,465,500	91,338,000	5,807,100	97,145,100
Transfer-In from Deficiency Corrections	0	0	0	0	0	0	0	0	0	0	0
Transfer-In from School Improvement Revenue Bond Debt Service Fund	0	0	0	0	0	0	0	0	0	0	0
Total Transfers	441,967,200	97,301,200	539,268,400	97,472,800	636,741,200	35,954,000	672,695,200	29,353,900	702,049,100	24,592,800	726,641,900
Total Available Resources	514,667,700	29,600,700	544,268,400	93,717,700	637,986,100	49,709,100	687,695,200	29,353,900	717,049,100	24,592,800	741,641,900
Expenditures											
Operating Costs [1]	5,500	500	6,000	600	6,600	700	7,300	700	8,000	800	8,800
Projects [2]	395,050,000	32,695,600	427,745,600	31,169,200	458,914,800	39,173,400	498,088,200	42,280,300	540,368,500	45,633,600	586,002,100
Land	47,645,000	(12,645,000)	35,000,000	0	35,000,000	0	35,000,000	0	35,000,000	0	35,000,000
LTO Debt Service Payments	71,967,200	7,301,200	79,268,400	(943,200)	78,325,200	(13,452,700)	64,872,500	26,465,500	91,338,000	5,807,100	97,145,100
Full Day Kindergarten [4]		11,003,500	11,003,500	49,736,000	60,739,500	23,987,700	84,727,200	(39,392,600)	45,334,600	(26,848,700)	18,485,900
Total Expenditures	514,667,700	38,355,800	553,023,500	79,962,600	632,986,100	49,709,100	682,695,200	29,353,900	712,049,100	24,592,800	736,641,900
Ending Fund Balance	0	(8,755,100)	(8,755,100)	13,755,100	5,000,000	0	5,000,000	0	5,000,000	0	5,000,000

Assumptions:

[1] Operating costs grow at 10% annually.

[2] The University of Arizona forecasts that Arizona's population will grow at an annual rate of around 3%. K-12 ADM as a percent of enrollment during FY 2005 and FY 2006 was an average 14.5%. The forecast assumes a cost per ADM of $15,400. The forecast also assumes 4.92% inflation.

[3] The forecast assumes the use of cash financing from General Fund appropriations from FY 2007 forward and assumes an amount necessary to maintain a fund balance of approximately $5.0 million.

[4] Full Day Kindergarten costs are based on historical expenditure patterns for new school construction, with 5%, 27.5%, 38.5% 21.9%, 6.9% being spent from FY 2009 through FY 2013 respectively.If Legislature approves capital funding, the costs in ensuing fiscal years will increase and require annual updating in five-year plan as conceptual approval information becomes available.

Table 4
Building Renewal Program
Five-Year Strategic Plan FY 2009 - FY 2013
Incremental Change in Expenditures

	Projected FY 2008 [2]	Incremental Change	Projected FY 2009	Incremental Change	Projected FY 2010	Incremental Change	Projected FY 2011	Incremental Change	Projected FY 2012	Incremental Change	Projected FY 2013
Beginning Fund Balance	3,956,800		0		0		0		0		0
Revenues											
Operating Transfers-In	86,283,500	121,056,300	207,339,800	20,734,000	228,073,800	22,807,400	250,881,200	25,088,100	275,969,300	27,596,900	303,566,200
Total Revenues	86,283,500	121,056,300	207,339,800	20,734,000	228,073,800	22,807,400	250,881,200	25,088,100	275,969,300	27,596,900	303,566,200
Total Revenues	90,240,300	117,099,500	207,339,800	20,734,000	228,073,800	22,807,400	250,881,200	25,088,100	275,969,300	27,596,900	303,566,200
Expenditures											
Building Renewal [1]	90,240,300	117,099,500	207,339,800	20,734,000	228,073,800	22,807,400	250,881,200	25,088,100	275,969,300	27,596,900	303,566,200
Total Expenditures	90,240,300	117,099,500	207,339,800	20,734,000	228,073,800	22,807,400	250,881,200	25,088,100	275,969,300	27,596,900	303,566,200
Ending Fund Balance [2]	0	0	0	0	0	0	0	0	0	0	0

<u>Assumptions:</u>

[1] Building Renewal has grown an average of 8.4% between FY 1999 and FY 2007. Forecast assumes 10% growth per year.

[2] FY 2008 expenditures assume that $3,956,800, in addition to the legislative appropriation of $86,283,500, will be spent for distributions for prior planning years once districts meet the appropriate reporting requirements pursuant to A.R.S. 15-2031 and submit a project expenditure report and a three-year building renewal plan.

Table 5
Emergency Deficiencies Correction Program
Five-Year Strategic Plan FY 2009 - FY 2013
Incremental Change in Expenditures

	Projected FY 2008	Incremental Change	Projected FY 2009	Incremental Change	Projected FY 2010	Incremental Change	Projected FY 2011	Incremental Change	Projected FY 2012	Incremental Change	Projected FY 2013
Beginning Fund Balance	3,981,900		4,496,800		3,996,800		2,996,800		1,946,800		1,844,300
Revenues											
Operating Transfers In	1,014,900	(1,014,900)	0	0	0	0	0	1,000,000	1,000,000	0	1,000,000
Total Revenues	1,014,900	(1,014,900)	0	0	0	0	0	1,000,000	1,000,000	0	1,000,000
Total Available Resources	4,996,800	(500,000)	4,496,800	(500,000)	3,996,800	(1,000,000)	2,996,800	(50,000)	2,946,800	(102,500)	2,844,300
Expenditures											
Aid to Organizations	500,000	0	500,000	500,000	1,000,000	50,000	1,050,000	52,500	1,102,500	55,100	1,157,600
Total Expenditures	500,000	0	500,000	500,000	1,000,000	50,000	1,050,000	52,500	1,102,500	55,100	1,157,600
Ending Fund Balance	4,496,800	(500,000)	3,996,800	(1,000,000)	2,996,800	(1,050,000)	1,946,800	(102,500)	1,844,300	(157,600)	1,686,700

Assumptions:

In FY 2004 and FY 2005 actual expenditures were $231,454 and $694,146 respectively. In FY 2006, the expenditures of $6,593,318 were atypical since the majority of the expenditures—$6,528,319—related to a single emergency replacement high school project (Project # 030215000-9999-4-4) in Tuba City Unified School District. In FY 2007, the actual expenditures were $89,500. It is hard to predict what districts will make emergency requests and for what amounts. As such, the SFB is assuming an expenditure plan of $500,000. In FY 2009 and beyond, the SFB assumes a higher level of potential expenditures, approximately $1.0 million, since the dismissal of the building lawsuit and the requirement for plaintiff districts to pursue all state funding available, including emergency deficiencies, must be pursued before the Court will consider the lawsuit ripe. The forecast assumes 5% inflation.

The Emergency Deficiency Correction Fund established by A.R.S. 15-2022 does not have a dedicated funding source. Revenues consist of monies transferred from the Deficiencies Correction Fund established by A.R.S. §15-2021, which is now repealed and no longer in existence, or the New School Facilities Fund established by A.R.S. §15-2041 as long as the transfer will not affect, interfere with, disrupt or reduce any approved capital projects. The forecast assumes an appropriation of $1.0 million in FY 2012 and FY 2013 to keep the fund solvent assuming expenditure projections are correct and there is no available cash in the New School Facilities Fund available for transfer.